

SECTION FORECASTS FOR REST OF DECADE

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CHAPTER

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“The future of M&A in Europe is bright. In fact, senior executives from western Europe are more optimistic about the future of M&A than even their typically bullish brethren in the US, according to a global survey Booz & Company conducted this autumn. However, the survey also reveals that if European firms are to extend beyond Europe in the coming years, they must develop less traditional organisational structures—and for many that won’t be easy.

This optimism is one of five themes specific to Europe we have identified that will shape the future of M&A. We suspect that the credit squeeze in the US may have influenced the survey results, which showed Americans just half as enthusiastic as Europeans; but another factor is Europe’s multi-country makeup, which means industries are naturally more fragmented and M&A opportunities more obvious. We estimate that Europe is several years behind the US in terms of consolidation. (The full survey will be included in the book *Merge Ahead: Mastering the 6 Enduring Trends of Artful M&A*, which will be published this summer by McGraw-Hill).

Secondly, western Europeans believe that cross-border activity will pick up in their geographic region: 57% say inbound M&A activity will increase and 53% say outbound activity will grow. That compares with 34% and 29%, respectively, in the US and Canada. This makes sense. Even though cultural and language issues exist for European cross-border deals, these challenges are worth the effort since growing significant market share in another European country organically is virtually impossible. And a significant 69% of respondents from western Europe said that extending the business into new geographies is an important growth strategy.

The third theme sure to shape M&A in western Europe is that respondents see the most attractive acquisition targets in their own region, the US and eastern Europe. That’s quite unlike the US, which is looking to China and India to outsource and cut costs. What this tells us is that eastern Europe’s lower costs (as compared with western Europe), its similar regulations, and close physical proximity are still powerful draws for western Europeans seeking scale and lower costs.

Fourthly, when queried about future M&A activity, 59% of Europeans said they expect more frequent but smaller deals, while just 16% expect fewer and larger deals. Several factors contribute to this outlook: many big deals have already occurred and anti-trust authorities are more likely to green light smaller acquisitions; small innovative players are excellent sources of coveted R&D; and big splashy deals that prick national pride are more likely to draw political intervention.

The final theme we’ve identified is western Europeans’ still lukewarm attitude toward joint ventures and acquiring minority stakes. US and Canadian companies—much more so than their European counterparts—have recognised that non-majority stakes are an important way to tap new markets. Continental European companies, however, are more at ease with traditional organizational models and strong central control. But the bigger a company grows, the more important it becomes to cede some central control in the interest of flexibility and speed. To take their enterprises global, continental European firms must create more adaptable organisations.”

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This article is an extract from **European Mergers & Acquisitions: Prospects for the decade**, the comprehensive 253-page report from IFR Market Intelligence. For full content details visit www.ifrmarketintelligence.com or email john.woodward@thomsonreuters.com